

**REPORT OF THE AUDIT OF THE  
HARLAN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HARLAN COUNTY CLERK**

**For The Year Ended**  
**December 31, 2007**

The Auditor of Public Accounts has completed the Harlan County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by \$85,753 from the prior year, resulting in excess fees of \$97,529 as of December 31, 2007. Revenues increased by \$232,410 from the prior year and expenditures increased by \$146,657.

**Report Comment:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENT AND RECOMMENDATION .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Harlan County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2008 on our consideration of the Harlan County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties



The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Harlan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

April 28, 2008



HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services		\$	13,517
Fiscal Court			24,312
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	840,092	
Usage Tax		1,746,542	
Tangible Personal Property Tax		1,673,132	
Temporary Tags		4,156	
Other-			
Fish and Game Licenses		3,745	
Marriage Licenses		10,187	
Deed Transfer Tax		46,602	
Delinquent Tax		543,423	4,867,879
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		49,242	
Real Estate Mortgages		15,143	
Chattel Mortgages and Financing Statements		83,721	
Powers of Attorney		3,427	
All Other Recordings		31,454	
Charges for Other Services-			
Copywork		17,004	199,991
Other:			
Postage		1,418	
Miscellaneous		9,096	
Overpayments		17,355	
Prior Year Returned Checks & Clerk Fees		3,068	30,937
Interest Earned			2,397
Total Revenues			5,139,033

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 591,713

Usage Tax 1,692,361

Tangible Personal Property Tax 660,818

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,475

Delinquent Tax 72,300

Legal Process Tax 25,934

Affordable Housing Trust 14,730 \$ 3,061,331

Payments to Fiscal Court:

Tangible Personal Property Tax 270,202

Delinquent Tax 104,175

Deed Transfer Tax 44,271 418,648

Payments to Other Districts:

Tangible Personal Property Tax 675,452

Delinquent Tax 205,569 881,021

Payments to Sheriff

4,814

Payments to County Attorney

107,822

Operating Expenditures:

Personnel Services-

Deputies' Salaries 266,852

Employee Benefits-

Employer's Share Social Security 25,483

Employer's Share Retirement 47,582

Employer's Paid Health Insurance 28,604

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Contracted Services-			
Advertising	\$	25	
Maintenance Agreement		26,131	
Telephone Expense		3,388	
Materials and Supplies-			
Office Supplies		42,429	
Other Charges-			
Conventions and Travel		1,220	
Dues		900	
Postage		5,496	
Refunds and Overpayments		19,417	
Election Expense		10,573	
Returned Checks		1,504	
		<u>1,504</u>	\$ 479,604
Total Expenditures			<u>\$ 4,953,240</u>
Net Revenues			185,793
Less: Statutory Maximum			<u>81,277</u>
Excess Fees			104,516
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,387</u>	<u>6,987</u>
Excess Fees Due County for 2007			97,529
Payments to Fiscal Court - February 20, 2008			<u>92,000</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 5,529</u></u>

\* Note – The County Clerk presented a check to the County Treasurer for the balance due the Fiscal Court on April 28, 2008.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Harlan County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Bond Escrow Account

On November 27, 2006, Belk Department Store provided a \$1,000 bond to the County Clerk in accordance with KRS 365.410 to 365.480 to conduct a "Going Out of Business" sale. This bond is to be held by the County Clerk for three years from the final date of the sale as filed and then surrendered in accordance with KRS 365.440. The County Clerk deposited the bond in a separate bank account. As of December 31, 2006, the balance of the Bond Account was \$1,002. During calendar year 2007, the account earned \$27 of interest, resulting in an ending balance of \$1,029 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Clerk for the year ended December 31, 2007, and have issued our report thereon dated April 28, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Harlan County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

April 28, 2008

COMMENT AND RECOMMENDATION



HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL – MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

While reviewing the internal control procedures, we noted the County Clerk's office lacks adequate segregation of duties over receipts, disbursements, and reconciliation procedures. During our review we noted one employee's duties include opening the mail, accepting payments, preparing the daily checkout sheet, preparing the deposit, preparing the daily, weekly and monthly reports, and preparing checks. Although we recognize the County Clerk has implemented compensating controls, our assessment of these compensating controls, in accordance with SAS 112, has concluded that when considering the possibility of further undetected misstatements, a misstatement would be considered more than inconsequential or material to the financial statements. We recommend the following compensating controls also be implemented to offset this material weakness:

- The County Clerk could compare the daily deposit to the daily checkout sheet and receipts ledger. Any differences should be reconciled. She could document her review by initialing the daily checkout sheet, the receipts ledger, and the daily deposit.
- The County Clerk could reconcile deed room recordings to the receipts ledger and monthly reports. Any differences should be reconciled. She could document her review by initialing the receipts ledger and monthly reports.
- The County Clerk could compare weekly and monthly disbursement checks to the applicable report before distribution. She should document her review by initialing the report.
- The County Clerk could compare monthly bank reconciliations performed by the in-house bookkeeper and the off-site bookkeeper. Any differences should be reconciled. She could document her review by initialing both bank reconciliations.

*County Clerk's Response: I take pride in my job and I think we have done the best job possible. We continue to try to improve our processes. I appreciate the suggestions that the auditors have given me. I want to do what is best for the office.*

